



City of Santa Barbara
Airport Department

Memorandum

DATE: June 20, 2012
TO: Airport Commission
FROM: Karen Ramsdell, Airport Director
SUBJECT: Proposed FY 2013 Airline Rates and Charges

RECOMMENDATION:

That Commission recommend approval of airline rates and charges including annual Airline Terminal building space square footage rate of \$85; a boarding bridge fee of \$65 per turn; and landing fee of \$3.40 per thousand pounds of gross landed weight effective July 1, 2012 through June 30, 2013.

DISCUSSION:

Background

The airlines serving Santa Barbara operate under annual Operating Permits rather than Lease Agreements. The Operating Permit establishes rental rates for airline terminal space, landing fees, and addresses security and operational requirements.

The airline annual Operating Permit has been expanded to incorporate specific uses for the expanded building space, Airport rules and regulations, and passenger boarding equipment in the new Airline Terminal building.

Air Service Changes

As the airline industry seeks profitability with mergers and bankruptcy, air service nationwide and at Santa Barbara continues to be impacted. The airlines continue efforts to reduce capacity, removing low performing routes and grounding obsolete aircraft. In calendar year 2011, Santa Barbara's seat capacity was reduced by 12.25% from prior year. With the seasonal service to Portland, Oregon added June 4, 2012, there are 6 non-stop destinations with service from five major airlines. However, with the reductions in seat capacity, passenger traffic for calendar year 2011 decreased 5% and year to date through May, the passenger count is down slightly 3.2%.

Bond Debt Service Payments

The 2009 Bonds included capitalized interest through December 2011. The first debt service payment that requires Airport revenues occurs in June 2012. Fiscal Year 2013 operating budget has a full year of the debt service requirement.

Methodology for Calculating Airline Rates and Charges

• **Airport Department Budget**

The new rates have been developed by using the FY 2013 operating and maintenance budget for the Airport Department, \$12,871,000 (rounded). Airport expense is defined as all reasonable costs and expenses incidental to, necessary for, or arising out of maintaining and repairing the Airport. The calculation of airline rates, fees, and charges is based on recovering the following costs from the FY 2013 Department Budget:

- i. Direct and indirect operating expenses,
- ii. Debt service associated with capital improvements less any pledged federal grants, passenger facility charge (PFC) revenues, or customer facility charge (CFC) revenues, and
- iii. Annual deposits to the Mandatory Reserve Funds and the Capital Reserve Fund.

These projected expenses are allocated to five cost centers as follows:

1. Airfield – including runways, taxiways, ramp and grass areas totaling 35% of the budget;
2. Terminal building – the new passenger terminal including the sidewalk and curb adjacent to the landside of the terminal and the various non-airline functions in the building totaling 50% of the budget;
3. Loading bridges – at the request of the airlines a separate cost center was established for the loading bridges which channel passengers between the terminal and certain aircraft and comprise 0.4% of the budget;
4. Commercial and industrial –non-aviation resources including Airport property leased to private commercial and industrial tenants north and south of Hollister and comprise, 10% of the budget; and
5. Other buildings and areas – including general aviation, cargo, automobile parking, landscaping, roadways, parking lots, etc. and comprise 4.6% of the budget.

The allocated costs are reduced by Airport revenues. The net amount for the Terminal building, Loading Bridges, and Airfield (landing fee) is recovered from the airlines in annual square foot building rates, boarding bridge fees, and landing fees. The calculation for establishing the Airline Rates and Charges is more fully described in the Attachment to this report.

• **Airline Negotiations**

The airlines Properties Representatives selected SkyWest Airlines' Manager of Airport Affairs as the lead negotiator and ask that he continue the discussions with the Airport on behalf of the airlines.

Once the Department's budget was submitted to the City Administrator, a meeting was held with the airlines on April 26, 2012. The rate calculation spreadsheet report was updated with the proposed operating budget data, and a detailed memo explaining the budget for FY 2013 was distributed to the airline representatives prior to the meeting.

The airlines requested that the Operating Permit include a provision for a mid-year review of the operating budget and a status of revenues to allow time for a mid-year adjustment in rates should the capacity reductions continue. With that change, the airline representatives concurred with the proposed rates and charges.

Cost Per Enplaned Passenger

Airlines use "Cost per Enplaned Passenger" (CPE) as a key indicator for their decisions about where to locate air service. The CPE is a ratio, not a specific charge. It represents the total costs of airport operations that are allocated to airlines and are charged to them in landing fees, rents or other specific charges, divided by the total number of passengers boarding planes each year.

As enplanements decrease the Cost per Enplaned Passenger ratio will increase or as costs increase the ratio will increase. All things being equal, CPE will get lower as passenger activity increases. Airports use the CPE ratio as a guide for cost containment, comparison with competing and/or similar sized airports.

A target Cost per Enplaned Passenger ratio with the FY 2012 rates and charges was \$9.75. The actual CPE for the new facility is \$8.81. The original bond financial feasibility listed a \$7.50 CPE, however, that was based on the annual passenger levels of 2008. The airlines recognize the changes that have taken place and acknowledge the reason for the increase.